

OPI Pulse: Employee Retirement, HB 1405

Background:

The Florida Retirement System (FRS) is the primary retirement plan for employees of state and county government agencies, district school boards, community colleges, and universities. The FRS also serves as the retirement plan for participating employees in 182 cities and 231 independent special districts that have chosen to join the system. Within the FRS, members have two plan options: the defined benefit plan, also known as the ***Pension Plan***; and the defined contribution plan, also known as the ***Investment Plan***. The defined benefit or Pension Plan allows employees to accumulate retirement benefits as paid for by their employer. These benefits accrue in a state managed account from which employees receive payment upon retiring. The defined contribution or Investment Plan allows employees to personally direct the investment of their accumulating retirement benefits. Upon retirement, employees receive payment from these funds. Presently, employees are not required to contribute to their benefit plan.

FRS Pension Plan:

The Florida Department of Management Services administers the Pension Plan through the Division of Retirement. An employee can become vested in Florida's Pension Plan after completing six years of service with an FRS employer. Once an employee is vested they are eligible to collect retirement benefits upon retiring. Retirement benefits under the Pension Plan are calculated by multiplying the employee's years of service by the employee's accrual rate (see sidebar) by the employee's average final compensation. Typically, within the FRS, employee retirement occurs at either 30 years of service or age 62. However, this may differ depending on individual employee class. For instance, public safety employees such as police officers, sheriffs and firefighters, who are classified as Special Risk and Special Risk Administrative Support, are eligible for retirement beginning at 25 years of service or age 55 (whichever occurs first). Once an employee is retired, he or she receives a monthly pension based on the above calculation. Should a retired employee die, his or her immediate family will become the beneficiary of the pension payments.

In addition, the Pension Plan also allows employees to participate in the Deferred Retirement Option Program (DROP). Through the DROP program, an employee who has reached the threshold to be eligible for retirement can continue their employment for as many as five years, or for some instructional personnel, eight years. In the DROP program, the employee begins to receive retirement benefits while earning a regular salary. Retirement benefits accumulate in a FRS trust fund, which receives cost of living adjustments each July. The employee can collect interest on the retirement funds in their trust at a monthly rate equivalent to 6.5 percent. When the employee terminates his or her employment, they are then eligible to collect a lump sum DROP payment, a rollover payment, or a combination of both. Presently, 33,577 FRS members are enrolled in DROP across the state.

Quick Look:

This document includes:

Background Information, Issues at a Glance, FAQs, Quick Facts and Links to More Information about **House Bill 1405** sponsored by **Representative Workman**.

Terms to Understand:

Vested- is a legal term meaning to give an immediate and secure right to an asset which cannot be taken away by any third party. An employee becomes vested in the Investment Plan after completing one work year with a Florida Retirement System (FRS) employer. An employee becomes vested in the Pension Plan after completing six years of service with an FRS employer.

Accrual Rate- the rate at which pension benefits build up for each year of qualified service. Members of the FRS earn different accrual rates depending on their membership class.

Employee Class- the FRS divides all participating employees into five categories or classes as defined in law. The five employee classes in the FRS are: Regular Class, Special Risk Class, Special Risk Administrative Support Class, Elected Officers' Class, and Senior Management Service Class.

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Quick Facts:

87.3: Percent of participants in the Pension Plan

12.7: Percent of participants in the Investment Plan

The FRS currently covers benefits for:

- **655,367** currently employed members
- **304,337** retired members and beneficiaries
- **33,577** members of the Deferred Retirement Option Program

Accrual Rate Percentages:

Service accrual rates depend on the employee's membership class. Employee class accrual rates are listed below:

Special Risk	3%
Special Risk Administrative Support	1.6-1.68%
Senior Management Service	2%
Regular Class	1.6-1.68%
Justices and Judges	3.33%
All Other Elected Officials	3%

**All Quick Facts reflect information collected as of July 1, 2010.*

FRS Investment Plan:

The FRS Investment Plan is administered primarily by the State Board of Administration (SBA). Through the Investment Plan, an employee's retirement benefits accrue in an individual employee account funded entirely by employer contributions and earnings. Benefits are provided through employee-directed investments offered by approved investment providers. An employee can become vested in the Investment Plan after one year of working for an FRS employer. Since the employee controls his or her own investments through this plan, the final amount of money he or she accrues at the point of retirement is the total amount the employee will receive from the FRS Investment Plan. These benefits will be accessible to the retired employee through their established investment account.

Issue at a Glance:

House Bill 1405, Retirement, sponsored by Representative Ritch Workman, was first introduced in the House Government Operations Subcommittee March 16, 2011. Proponents of the bill believe it is necessary to change the Florida Retirement System in order to align the system more closely with private sector retirement plans. Proponents have expressed the following reasons for the proposed reforms:

- In light of Florida's \$3.9 billion budget deficit, it is necessary to review all state programs for potential cost savings to taxpayers.
- Florida is one of the only states where the taxpayers are the sole contributors to employee pensions.
- An adjustment to state employee benefits is necessary in order to avoid potential layoffs, pay cuts or other detrimental actions that would adversely affect public employees.

What the Bill Does:

House Bill 1405, which was heard before the House State Affairs Committee March 24, 2011, proposes several changes to the Florida Retirement System including:

- Requiring a three percent employee contribution for current and future members of all classes of the FRS Pension Plan and Investment Plan.
- Closing the Deferred Retirement Option Program (DROP) to new participants, effective July 1, 2011.
- Increasing the retirement age and years of service for members of the FRS who enroll on or after July 1, 2011. As written in the bill, the retirement age for a person entering the Special Risk or Special Risk Administrative Support classes would go from age 55 to age 60 and the years of service would shift from 25 to 30. The bill also increases the retirement age for all other classes of employees from 62 to 65 years of age, and the years of service from 30 to 33 years.
- Changing the name of the FRS defined benefit program (pension plan) to the Florida Retirement System Pension Plan.
- Changing the name of the defined contribution program from the Public Employee Optional Retirement Program (investment plan) to the Florida Retirement System Investment Plan.

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Frequently Asked Questions: HB 1405 Employee Retirement

Do the changes to the FRS plan affect those who have already retired?

No, this bill does not affect the benefits of individuals who have already retired from employment.

If I am already enrolled in FRS, are the requirements for my retirement age or years of service going to change because of this bill?

No. Employees already enrolled in the FRS maintain the same retirement age of 62 or 30 years of service. Also, those employees already enrolled in the Special Risk Class and the Special Risk Administrative Support Class maintain the same retirement age of 55 or 25 years of service.

Are service accrual rates affected by House Bill 1405?

No, the service accrual rates stay consistent with what is provided above in this document

If House Bill 1405 is passed, when would the changes take effect?

The changes outlined in the bill would begin July 1, 2011.

I hear the Florida Retirement System is "fiscally sound." Why are proponents pushing to change something that isn't broken?

Proponents of the bill agree that FRS is financially sound. However, proponents assert that because Florida is facing a \$3.9 billion budget deficit, it is necessary to consider changes to the retirement system to reduce the overall cost of the program and to avoid cuts to basic government services, substantial lay-offs or pay cuts.

How much will these measures really save the state of Florida?

Proponents project the total statewide savings annually (including all participating entities) will be \$1.2 billion. Within the total, proponents project the General Revenue savings will be \$710 million annually.

Additional References:

[Florida House of Representatives](#)

[House Government Operations Subcommittee](#)

[House State Affairs Committee](#)

[Florida Retirement System](#)

[Florida Division of Retirement](#)

[State Board of Administration](#)

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